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March 17, 2009

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe Wendy L. Watanabe
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF POSITIVE PATH YOUTH DEVELOPMENT CENTER - A GROUP HOME FOSTER CARE CONTRACTOR**

Attached is our report on the fiscal operations of Positive Path Youth Development Center (Positive Path or Agency) from January 1, through December 31, 2006. Positive Path is licensed to operate one group home (GH), with a resident capacity of six children. Positive Path is located in the Second Supervisorial District.

The Department of Children and Family Services (DCFS) and the Probation Department (Probation) contract with Positive Path to care for foster care children placed in the Agency's home. Under the contract, the County pays Positive Path $4,479 a month per child, based on a rate determined by the California Department of Social Services. During calendar year 2006, the Agency received $325,314 in group home foster care funds.

Scope

The purpose of our review was to determine whether Positive Path complied with its contract terms and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated Positive Path's expenditure and revenue documentation, internal controls and compliance with applicable federal, State and County fiscal guidelines governing GH foster care funds.

Summary of Findings

We identified $8,208 in questioned costs; $642 in unallowable costs and $7,566 in unsupported/inadequately supported costs. In addition, DCFS and the Agency need to work together to resolve some potential overpayments. Positive Path also needs to establish proper separation of duties, and strengthen its internal controls over petty cash, accounting, disbursements, payroll and personnel records and bank reconciliations.

We also noted that Positive Path had an operating loss of $5,371 in 2005 and $152,115 in negative net assets. During 2005, Positive Path borrowed $17,806 from its officers. At the end of 2005, the Agency had $4,545 in cash and no investments, which indicates the Agency is using these loans to fund its operations. If Positive Path continues to incur operating losses and cannot get additional loans, it is unclear how the agency can continue to provide quality foster care services since the Agency has no net assets. DCFS needs to work with Positive Path to identify possible solutions to the Agency's financial issues.

We have recommended that DCFS resolve the questioned costs and, to the extent appropriate, collect the overpayments and disallowed amounts. In addition, DCFS needs to ensure that Positive Path's management takes the appropriate corrective actions to address the recommendations in this report. DCFS should also monitor to ensure that the corrective action results in permanent changes.

Details of our findings are discussed in the attached report.

Review of Report

We discussed our report with Positive Path's management on June 26, 2008. The Agency will provide their response to DCFS, who will prepare a Fiscal Corrective Action Plan and submit directly to your Board. We thank Positive Path's management and staff for their cooperation during our review.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

Attachment

c: William T Fujioka, Chief Executive Officer
Patricia S. Ploehn, Director, DCFS
Ted Myers, Chief Deputy Director, DCFS
Susan Kerr, Senior Deputy Director, DCFS

Robert B. Taylor, Chief Probation Officer
Violeta Houston, Executive Director, Positive Path Group Home, Inc
Board of Directors, Positive Path Group Home, Inc
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept. of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Positive Path Youth Development Center, Inc.
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified $642 in unallowable costs and $7,566 in unsupported/ inadequately supported costs. Details of these costs/overpayments_are discussed below.

Applicable Regulations and Guidelines

Positive Path is required to operate its GH in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, including Exhibit C-2, Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)

- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular)

- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)

- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

We identified $642 in unallowable expenditures as follows:

- $642 in not-sufficient fund (NSF) check charges. Circular Section B.16 states that the costs of fines and penalties are unallowable.

Unsupported/Inadequately Supported Costs

The A-C Handbook states that all revenues and expenditures shall be supported by original vouchers, invoices, receipts, contracts and/or other documentation and that unsupported expenditures shall be disallowed upon audit. Photocopied invoices or receipts, requisitions, canceled checks, etc.), and account statements do not constitute supporting documentation for purchases.

We identified $7,566 in expenditures that were inadequately supported as follows:

- $3,410; $2,461 to Lowe's, Seafood City, Grand Chinese Buffet, Koji BBQ and Del Castillo APP; and $949 in petty cash disbursements for which the Agency did not provide any documentation to establish the nature and purpose of the expenditure.

- $2,700 in payments to an independent contractor. The Agency provided an agreement and invoices indicating payments were for consultation and training.

However, the Agency did not provide an agenda, training materials, sign-in sheets or other documents to establish that the services were actually provided and were related to the Group Home program.

- $1,456, including two payments totaling $869 for fire insurance on the group home property. The property is owned by the Executive Director and the lease stipulates that fire insurance is the responsibility of the owner. Payments of $587 for the Puregold Price Club for merchandise for the Executive Director's personal use.

Recommendations

DCFS management:

1. **Resolve the $8,208 ($642 + $7,566) in questioned costs and collect any disallowed amounts.**

Positive Path management:

2. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized receipts.**

3. **Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.**

Potential DCFS Overpayments

DCFS' records show some potential overpayments. DCFS and Positive Path should work together to resolve the overpayments, and DCFS should collect any verified overpayments. Positive Path's management should ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

Recommendations

4. **DCFS management work with Positive Path to resolve the overpayments and collect any verified overpayments.**

5. **Positive Path management ensure that any future payment discrepancies are immediately reported to DCFS and excess amounts are repaid promptly.**

AGENCY FINANCIAL CONDITION

Positive Path had a $5,371 operating loss for 2005. This loss, along with a prior period adjustment, increased the Agency's deficit in net assets to $152,115 as of December

31, 2005. The Agency has $186,630 in liabilities, including $39,676 in loans from the Executive Director (ED). Approximately half the loans from the ED ($17,806) were received in 2005, but the Agency only had $4,545 in cash and no investments on December 31, 2005. Therefore, it appears the Agency is borrowing to offset operating losses, which it cannot do indefinitely.

Positive Path management needs to provide DCFS with a plan describing how the Agency will address its operating losses and alternatives to further borrowing to fund its operations.

Recommendation

6. **Positive Path management provide DCFS with a plan describing how the Agency will address its operating losses and alternatives to further borrowing to fund its operations.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted the following contract compliance issues and internal control weaknesses. DCFS should ensure that Positive Path management takes action to address the recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Separation of Duties

The Agency's bookkeeper maintains the accounting records and also completes the bank reconciliations. A-C Handbook Section B.1.4 requires bank statements be reconciled by someone with no cash handling, check writing or bookkeeping functions.

Recommendation

7. **Positive Path Management separate the responsibilities of bookkeeping and bank reconciliations.**

Accounting Procedures

We noted the following weaknesses in Positive Path's accounting procedures and records:

- As of December 31, 2006, the Agency did not have written agreements for $86,171 in loans from the Executive Director (ED). The Agency's Board meeting minutes also do not authorize the loans between the ED and the Agency. A-C Handbook Section A.3.2 states that loans to the Agency by employees must be supported by a written loan agreement and records documenting that the funds were deposited into an agency bank account.

- The Agency did not consistently deposit loan proceeds received from the Agency's ED into an Agency bank account as required. Instead, the ED paid for goods and services for the Group Home with personal funds. These expenses were deemed loans and as they were incurred, a liability entitled "Due to Officers – Ms. Houston" was credited. Nearly all the items purchased were for day-to-day expenses, such as clothing, meals, groceries, gasoline, etc. Normally, these expenses would be paid for using an Agency check, or debit/credit card. To the extent the expenses were small non-recurring expenses, a petty cash fund could have been used. As discussed in the Financial Viability section of this report, the Agency operated the Group Home program at a slight loss during calendar year 2005 and had a deficit in net assets of $152,115 as of December 31, 2005. These loans may have been necessary to address cash flow difficulties.

  We were unable to substantiate $2,520 of the liability to the ED as group home expenditures. The Agency did not provide documentation for a $900 payment and provided an invoice for $1,620 for services provided at an address different than the group home. To the extent it cannot be established that these amounts benefitted the Group Home program, the liability to the ED should be reduced.

- The Agency maintains a fixed asset list. However, the list does not include an item description, nor do they conduct an annual inventory. A-C Handbook Section B.4.2 requires the contractor to maintain a current list of fixed assets (including the item description and serial number) and conduct an inventory of all fixed assets at least once each year.

Recommendations

Positive Path Management:

8. **Ensure all employee loans have a written agreement and the funds are deposited to an Agency bank account.**

9. **Reduce the Executive Director's liability by amounts that are not verified as benefiting the group home program.**

10. **Maintain a current fixed asset list and conduct an inventory of fixed assets as required by the Contract.**

Disbursement Procedures

We noted the following weaknesses in controls over disbursements:

- The Agency does not require a second signature on checks. A-C Handbook Section B.2.1 states that a second signature shall be required on all checks, unless otherwise specified in the contract.

- The Agency makes checks to replenish their petty cash fund payable to "Petty Cash". A-C Handbook Section B.2.1 states that checks should not be made payable to "cash". Petty cash fund replenish checks should be payable to the custodian of the fund.

- The Agency did not mark expenditure documentation "PAID" and reference the documentation to the check number on nine of 44 payment transactions (20%) reviewed. A-C Handbook Section B.2.1 requires that all supporting documentation be marked "PAID" and referenced to check numbers to prevent reuse or duplicate payments.

Recommendations

Positive Path Management:

11. **Require two signatures on all checks.**

12. **Discontinue making checks payable to "Petty Cash".**

13. **Consistently mark expenditure supporting documentation "PAID" and reference the documentation to canceled checks.**

Payroll/Personnel Controls

We noted the following internal control weaknesses in Positive Path's payroll and personnel controls.

- The Agency does not track employee benefit balances (i.e., sick, time, vacation, sick leave) as they are used. Time used is only recorded on employee timecards. A-C Handbook Section B.3.2 requires that employee benefit balances be maintained on at least a monthly basis, and be increased when benefit hours are earned and decreased as hours are used.

- The Agency does not keep employee pay rate information in employee files. A-C Handbook section B.3.2 states personnel and payroll records should include the employee's authorized salary rate.

- One of seven timecards reviewed did not have a supervisor's signature. A-C Handbook section B.3.1 states that timecards and/or time reports must be signed in ink by the employee's supervisor.

Recommendations

Positive Path Management:

14. **Maintain employee benefit balances on at least a monthly basis.**

15. **Ensure the authorized pay rate is kept in employees' personnel files.**

16. **Ensure all timecards are signed by the supervisor.**

Petty Cash Fund

A-C Handbook Section B.2.3 states that a petty cash fund of up to $500 may be maintained for payment of small incidental expenses and should be maintained on an imprest basis.

Use of the Agency's petty cash fund is not limited to small incidental expenses, nor is the fund maintained on an imprest basis. We reviewed five petty cash replenishments totaling $6,400, approximately 30% of the petty cash expenditures for the year, and noted the following:

- The Agency only provided receipts for $5,451 of the $6,400. The difference of $949 has been questioned as inadequately supported. Disbursements must be supported by invoices, store receipts or other external authenticating documents.

- Three of the five transactions sampled exceeded the $500 limit for petty cash transactions. Written approval from the County is required to establish a petty cash fund greater than $500.

- Petty cash receipts were not crossed-referenced to checks issued to the fund or to the ATM receipts for cash withdrawals taken out for petty cash purposes. Receipts, vouchers, etc., supporting each fund replenishment must be bound together, filed chronologically and cross referenced to the reimbursement check.

Recommendations

Positive Path Management:

17. **Use petty cash fund for only small incidental expenses.**

18. **Maintain the fund on an imprest basis.**

19. **Limit the petty cash fund to $500 or obtain written approval by County for a larger fund.**

20. **Cross reference supporting documentation for each fund replenishment to the reimbursement check.**

Bank Reconciliations

The Agency's December 2006 bank reconciliations contained an outstanding check for $1,000 from June 2006. A-C Handbook Section B.1.4 states that reconciling items should be resolved timely.

Recommendation

21. Positive Path Management investigate and resolve unreconciled items in a timely manner.